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POLICY NOTE

Seattle's increasing long-term public financial obligations

by Washington Policy Center research staff

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Key Findings

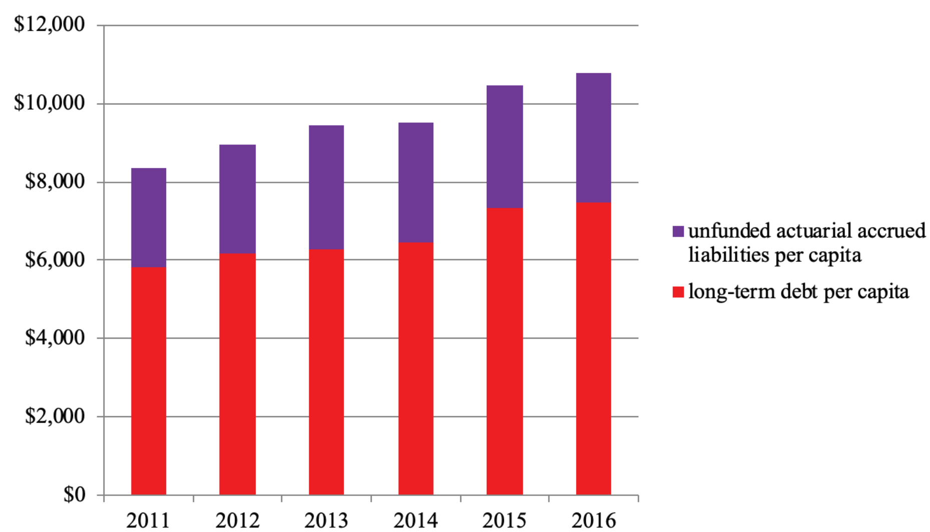
1. Long-term public debt and unfunded liabilities in Seattle are increasing at a rapid pace, much faster than the growth in the city's population.
2. Public long-term debt increased by 43% over five years, while population grew only 12%.
3. Each Seattle resident effectively owes over $10,700 in long-term public financial obligations.
4. Public spending increased by more than 39% over five years. Population increased by less than one-third of that amount over the same period.
5. To create a sustainable budget and get debt under control, officials should use the current economic boom to stop excessive spending increases and pay down debt.
6. A policy of spending control and debt reduction during good times will leave the city in a stronger financial position to face an inevitable future recession.

Introduction

Seattle has two major categories of long-term obligations: long-term debt and unfunded liabilities. Long-term debt includes borrowing to pay for major capital projects, such as Alaskan Way Corridor, Seawall, Fire Stations, Precinct, Pike Place Market, Bridge, and Information Technology projects. Unfunded liabilities include the portion of City of Seattle employee pensions and other post-employment benefits for which Seattle has not invested sufficient funds to cover expected costs.

Both long-term debt and unfunded liabilities in Seattle keep increasing. They are growing at a much faster rate than the city's population. Here are the per-capita obligations to pay off Seattle's long-term debt and unfunded liabilities.

City of Seattle rise in long-term obligations, 2011 - 2016



Source note: Data is from City of Seattle Comprehensive Annual Financial Reports, 2011 through 2016. As of August 2018, Seattle has not released its Comprehensive Annual Financial Report for 2017, so the most current data available is from 2016.

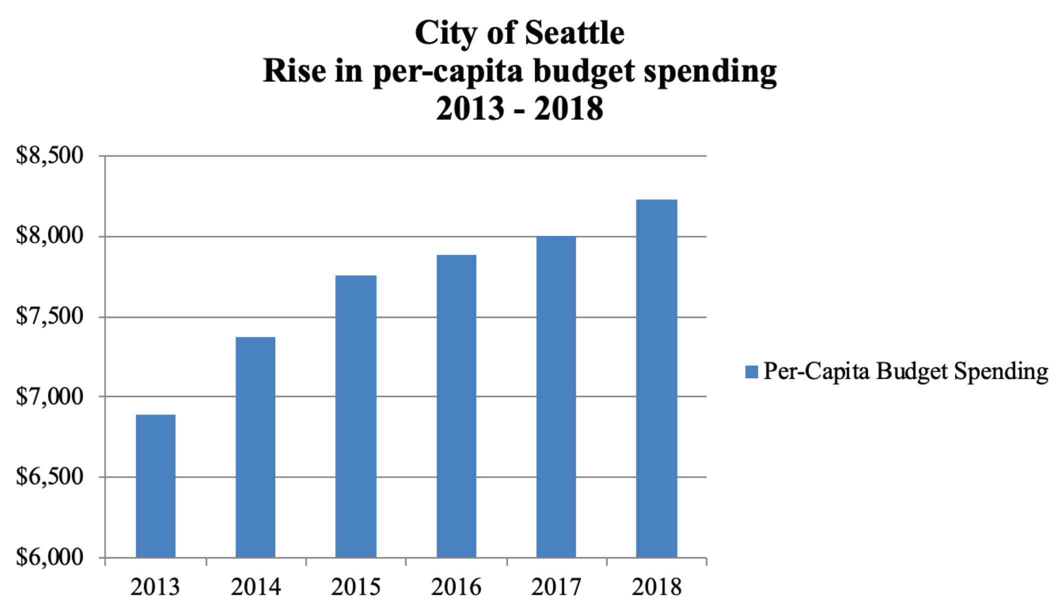
Even as population grew 12.2% from 2011 to 2016, the amount owed **per resident** still continued to increase. As of 2016, each resident effectively owed $10,772 for the two City of Seattle obligations shown in the chart above, an increase of 29.1% over the five year period. Note also that not all residents are taxpayers, so the burden per taxpayer is substantially higher.

Source: Data is from City of Seattle Comprehensive Annual Financial Reports, 2011 through 2016. Long-term debt includes borrowing to pay for major capital projects, such as Alaskan Way Corridor, Seawall, Fire Stations, Precinct, Pike Place Market, Bridge, and Information Technology projects.

The increase for long-term debt is even more substantial. At the end of 2011, Seattle had taken on outstanding long-term public debt of $3.565 billion ($5,824 per resident). By the end of 2016, that amount had increased to $5.124 billion ($7,461 per resident). During the five years from 2011 to 2016, the long-term debt incurred by elected officials increased by 43.7%, while the city's population increased by only 12.2%. Long-term debt grew at more than triple rate of population increase.

The dramatic rise in Seattle's pubic spending

Far from being short of money, as elected leaders often complain, public spending by the City of Seattle has dramatically increased over the past five years.



Source: Spending data is from https://openbudget.seattle.gov. Population data is from https://www.ofm.wa.gov/sites/default/files/public/legacy/pop/april1/ofm_april1_population_final.pdf.

Since 2013, the city budget has grown by 39.1%, while Seattle's population increased by less than one-third of that amount. In 2013, Seattle spent $6,890 per resident. This year (2018) that amount has increased to $8,230. Spending has grown at more than double the rate of population increase.

Funding this increased spending requires greater tax revenue. The City of Seattle Budget Office anticipates that the general subfund tax revenue for 2018 will reach new highs for property taxes, sales taxes, business taxes, and utility taxes.[1]

Policy Recommendations

The dramatic rise in public debt and spending represents a significant financial threat to the people of Seattle. Long-term debt commits future tax revenue to paying interest and principal instead of being used for the needs of Seattle residents. Rising taxes make it more expensive to live in the city, and that increased public burden falls heaviest on the poor, working families and the elderly living on fixed incomes. There are two essential reforms that public officials can adopt to reduce the burden of government and secure a stronger and more equitable financial future for the people of Seattle.

1. Stop excessive spending increases

Increasing spending faster than population growth is unsustainable. Eventually, there comes a limit to what can be funded by growth, tax increases and taking on more debt. Growth is cyclical rather than endlessly increasing. Borrowing and greatly expanding the budget during periods of revenue growth forces cuts when such future expected growth inevitably disappoints.

Reducing government expenditures during economic downturns hurts people at their most vulnerable times. It is better to spend less now so we are able to spend more in the future.

Ideally, government borrowing and spending is counter-cyclical. During periods of economic expansion, government should spend relatively less, because there is less need for its services. During periods of economic downturn, when government services are needed most, it should spend more.

2. Pay down debt

Debt restricts the use of future tax revenue. By borrowing in the present, Seattle has committed future tax revenue that could otherwise fund services to instead be re-directed to paying interest and principle on that debt.

Greatly reducing debt during periods of revenue growth makes it possible during lean times for officials to spend less on debt interest and more on the needs of city residents. With less debt, it becomes easier and cheaper for Seattle to borrow again when officials need to. In this manner, Seattle could maintain and potentially expand spending during downturns and recessions.

By paying down debt today, when the city is experiencing an economic boom, city officials will be in a better financial position to sustain essential services when an inevitable economic downturn happens in the future.

1 City of Seattle Budget Office reports (most recently http://www.seattle.gov/financedepartment/documents/2018-04-30RevenueupdateforCouncil-4.27.pdf)

Conclusion

Slowing the recent rapid growth of government spending is essential if we want to be able to maintain all of the current services that Seattle provides. Given the huge increase in spending over the past five years, it will already be difficult to avoid significant cuts in the next downturn.

It is past time for the Seattle City Council to reduce these heavy obligations as we approach the end of this almost unprecedented economic expansion. It is both irrational and irresponsible to assume there will never again be a recession.

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